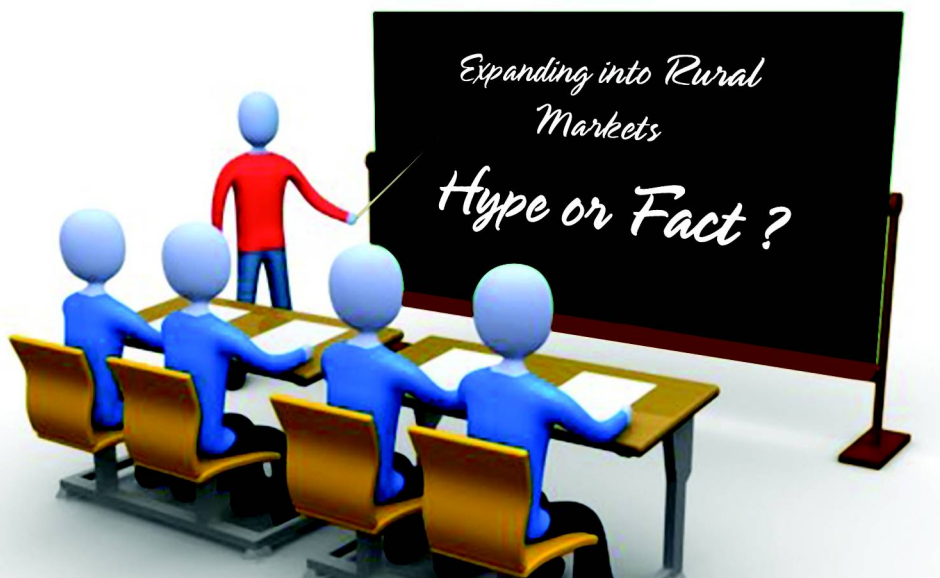


# Expanding into Rural Markets

## Hype or Fact?

**Studies which appeared in the recent past suggesting that the FMCG products are successfully penetrating into the rural markets raise a number of questions about the living standards and the lifestyles of the people in rural India. They appeared to be either incomprehensive or lacked serious consideration about the nature, scope and extent of rural markets. This article calls for a holistic look at the income of rural India against the backdrop of FMCG products expanding into our hinterlands.**



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**I**t is true that approximately 70-80% of the population in India lives in more than 6,00,000 villages spread across the country whose uneven terrain is embedded with mountains, forests, rivers, plains and dry lands including a desert in the North West (Kisholoy Roy, 2008). According to 2001 census, 71% of the population resides in rural areas and 29% lives in the urban areas. This appears to

be a very wide and promising market, against the backdrop of saturating markets in the urban settings (CSG Krishnamacharyulu and Lalitha Ramakrishnan, 2006a) though many studies that predicted the expansion of rural markets lacked realistic perspective and factual data. Most of the studies had taken into consideration the data provided by National Council of Applied Economic Research (NCAER) drawn in the year 1995-96. Even the data on Micro Impact of Macro and Adjustment Policies (MIMAP) quoted by Krishnamacharyulu and Lalitha Ramakrishnan relate to data as old as 1995-96 and even older. The only latest data regarding the percentage of population below poverty line, quoted in Krishnamacharyulu and Lalitha Ramakrishnan, is based on

the National Sample Survey of 1999-2000, published in April 2001.

Further, most of the studies concentrated on the topographical distribution of the villages and spread of the population across India, though some authors have highlighted the necessity to delve deep into this very important factor, from time to time. As a result, the marketing strategies that were spoken about and the FMCG goods quoted to be penetrating and selling more in the rural markets did not really reflect the facts at the rural level.

According to Jagaman Singh (2008), "Evidently, the 'rural prosperity' that marketers are speaking of, actually relates to urban areas, quite often district and taluk headquarters with populations

range from 50,000 to 5,00,000 each". Questions whether 'televisions, motorbikes, cars and refrigerators are really becoming increasingly common in Indian villages are raised quite often today than ever.

Is this the real picture of rural India? The macro view of prosperous states like Punjab, Kerala, Haryana and Uttar Pradesh may reflect the colorful picture, but micro level studies reveal a different story. They show the other side of rural India, which is suffering from abject poverty, unemployment, illiteracy, indebtedness, high suicide rates and stressful life. Rural areas are highly stratified in terms of caste, class and ownership of land (Jagaman Singh, 2008). It is also important to note that most of the studies quoted above were based on the premise that Indian economy is steadily progressing over years and keeps continuing to be so. But, unfortunately since February of this year, a recession had crept into Indian economy with the fast spiraling prices touching double digit inflation, consistently decaying farm sector, increasing farmer suicides, decreasing agricultural yield (which touched the level of production of 1976 when India produced 226 million tons of grains), ever widening migration of agricultural labor to urban settings and failing National Rural Employment Guarantee Scheme.

### **What is True of Rural India Today?**

The rural phenomenon is only temporary. Some studies at micro-level indicate that there is some improvement in the level of income of rural people, but, this is not enough to sustain development. The real value-added in agriculture

declined leading to a reduction in income levels of rural people. This has adversely affected the demand for industrial products, particularly for consumer durables. (Singh, 1999 and Malik, 2000 as quoted by Krishnamacharyulu and Lalitha Krishnan)

Firstly, the situation is different from one area to another. Those villages and the hamlets which are near the urban areas differ vastly from the hinterland rural life. Similarly, the rural life near the rivers differ drastically from the dry, plateau and mountainous side. The purchasing power of the well-to-do rural middle class (involved in rural employment in the services sector) and the actual daily wage dependent labor in the rural settings have been mixed up and cumulatively shown as an expanding rural market. Most of the examples cited for showing the expanding rural markets and increasing power of purchasing are electronic gadgets and vehicles without an apparent correlation to income groups in the rural settings. An increase in the selling of life insurance products, which have a sociological commitment and mobile services, which are turning out to be essential services, are also shown as a proof of expanding rural market.

Further, different levels of landholders are clubbed and treated as one group. Statistical figures quoted in various studies (Jacqui Tan, 2005; AV Ramanacharyulu, 2005; CSG Krishnamacharyulu and Lalitha Ramakrishnan, 2006a, and b) do not correlate with the exact income group in a rural area with their corresponding purchasing power. This question becomes all the more pertinent when one looks at the reports that refer to an

increasing purchasing power of the rural populace concerning the FMCG products like shampoos, soaps, detergents, fans, etc. For instance, does rural India which enjoys the abundance of fresh air require electric fans as much as quoted in the studies? Another glaring example of flawed approach to data presentation is regarding the penetration of color TVs. Studies grossly overlook the fact that entire rural India suffers from power cuts, huge voltage fluctuations and that many parts of rural India do not even have the luxury of power supply till date, let alone continued power supply.

As of now, India is still a power deficit country. The Government of India, (<http://www.i4donline.net/nov07/content.asp>) in the 11<sup>th</sup> plan, tried to push forward the electrification of rural India under Rajiv Gandhi Grameena Vidutikaran Yojana (RGGVY). The plan envisages complete rural electrification in India by 2012 in order to provide power on demand to any village. However, out of 120,000 villages so far 40,000 villages were provided with the same. Under the new scheme, habitations with a population of 100 even will be provided with the power. (Sujay M, 2008: *The Hindu*) Prior to this, the limit was 300 people per hamlet. It is also mandated that all such villages, which are brought under RGGVY scheme, will be provided an uninterrupted power supply for minimum 6-8 hours a day. Further, free connection will be provided for the families under the Below Poverty Line (BPL) with an income limit of Rs. 2,200 per month (approx \$50). The earlier limit was Rs. 1,500 (approx \$35-40).

If the Government of India goes in for the Nuclear Deal, which is hanging fire due to the hurdles

posed by the Leftist groups of the United Progressive Alliance (UPA), the realization of above target is not

impossible. However, even if the nuclear deal does not get through, the possibility of country achieving this cannot be ruled out at the current economic growth which is at 8.5 to 9 Gross Domestic Product (GDP) each quarter, averaging to 7.5 to 8 GDP annually. (<http://www.thehindu.com/2008/02/13/stories/2008021355021500.htm>)

### Actual Rural Income

P Sainath, the Ramon Magsaysay Award Winner and currently the Editor of Rural Affairs of *The Hindu* newspaper said, "When many households spend less than Rs. 225 a month per person, you really need to think of how people live. On what it is that they live. What can you spend on if the most you can spend is, on average, Rs. 8 a day? And if close to 80% of what you spend is on food, clothing and footwear, what else could you possibly buy".

According to Sainath, the average Monthly Per Capita Expenditure (MPCE) of farm households across India was Rs. 503 in 2003. That is just about Rs. 75 above the rural poverty line. And it is an average across regions and classes and income groups. Even this dismal figure hides huge inequities. A big chunk of those households are below the poverty line. The figure, i.e., Rs. 503—awful in itself—is derived from an average that clubs states such as Kerala (MPCE Rs. 901) and Punjab (Rs. 828) and those like Orissa (Rs. 342), Jharkhand (Rs. 353), Chhattisgarh (Rs. 379) and Bihar (Rs. 404). Here, one can observe that in those four regions, even the state-wide average falls under BPL. More than a fifth of households in these states and Madhya Pradesh had an

**Table I: Items Commonly Found in the Interior Rural Markets/ Outlets/Kiosks/Shops/Weekly Fairs**

No.	Name of Items	Category of Items	Make/Company	Price
1.	Crockery Utensils plates, spoons, vessels, etc. Iron made knives, wooden made small kitchen items such as the flat circular rolling board for making chapatti, etc.	Household utility items	No make/company name	Very low prices compared to prices of the dealers or showrooms
2.	Small baby garments, men and women denim clothes, kurta, chunni, pyzamas, shirt pieces, khadi or cotton cloth pieces	Garments/suitings and shirtings	No make/company	Very low prices/ compared to prices of the dealers or showrooms
3.	Sports items, children entertainment items, noise making instruments	Entertainment/Fun Making/Sports	No make/company	Very low prices
4.	All sweet and hot eatable items made of oil	Meeta/Namkeen	No make/company	Moderate prices
5.	Blankets/bedsheets/ rugs/shawls/sweaters	Homeware	No make/company	Moderate prices
6.	Broomsticks and wash ware/mats/cleaning cloths, etc. detergents, soaps, washing powders	Sanitary ware	No make/company	Very low prices
7.	Grains and Groceries including oils—groundnut, sesame and mustard. No palmoline	Household	No make/company	Moderate prices
8.	Pickles, honey, chawanpras, ayurvedic products, medicines	Household	No make/company	Moderate prices
9.	Vegetables	Household	—	Very low prices

MPCE equal to or less than Rs. 225. (<http://www.indiatogether.org/2005/nov/psa-income.htm>). These figures are taken from the National Sample Survey Organization's "Situation Assessment Survey of Farmers" which was carried out for the first time in the history of the NSSO in 2003 as part of the NSSO's 59<sup>th</sup> round.

Even if one considers the national figure of Rs. 503, the picture is quite bad. In his analysis, this income clubs both zamindars and tiny landholders. In that sense, the average, again, misleads. For another, over 55% of this is spent on food. Clothing, footwear, fuel, and light take close to 18%. Health spending is double that on education. The average household spends less than Rs. 17 a month per capita on education. It spends over Rs. 34 a month on health. One has to even remember that the Rs. 503 figure is for the people owning some land, may be large or small. Then, how bad will the picture be for those who are landless?" (<http://www.indiatogether.org/2005/nov/psa-income.htm>)

Even Union Agriculture Minister Sharad Pawar admitted in an interview that the Indian farmer is facing a crisis. (<http://www.indiatogether.org/2005/nov/psa-income.htm>). According to the minister, the idea that the farmers' living standards have gone down is "100% correct and the farming community has been ignored in this country, especially so over the last eight to ten years. (<http://www.indiatogether.org/2005/nov/psa-income.htm>). In the budgetary provision, not more than 2% money has been allocated for agriculture. Though this applies where more than 65% of the population works."

(<http://www.indiatogether.org/2005/nov/psa-income.htm>).

Recently, Amrita Sharma (2007) of the IWMI-Tata Water Policy Program at Anand, Gujarat has predicted the withdrawal of youth from the rural agriculture in the next decade and the present rural farmers falling in the group of aged by 2020-2050. The study is far-reaching consequences, sociologically and economically, so far the concept of rural development and expanding markets is concerned.

### Linking Marketing to Standard of Living

Marketing is essentially a social process, which seeks to enhance the living standards of the people to whom one proposes to sell one's goods and services. Philip Kotler says, "Marketing is the social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others".

Rural marketing is divided into three phases. The first phase, i.e., before mid-1960s referred to marketing of rural products in rural and urban areas and agricultural inputs in rural markets. It was

considered synonymous to 'agricultural marketing'. Green revolution added a new dimension to the farm practices and as such wider application of new agricultural inputs enhanced the scope of agricultural rural marketing. The industrial revolution also helped to change the face of the rural marketing.

The different phases of rural marketing and the consequent rapid progress the rural India had undergone can be accepted in a restricted sense as against semi-urban settings. But, the above scenario is not valid when the hinterland of India with population as below as 2,000 per village is taken into consideration.

Further, it does not elaborate the relationship between industrial development and the rural standards of living income group-wise. For instance, has the clothing of the rural groups changed from plain cotton to polyester? Has the common salt (stone salt) used by the rural groups changed to iodized salt? In other words, no statistical data is placed to correlate the specific income group to any industrial development. Thus, one finds a gap in the rural marketing.

**Table 2: Distribution of Rural Population in Villages of India**

Population	Number of Villages	Total (%)
Less than 200	1,14,267	18
Less than 499	1,55,123	24
Less than 999	1,59,400	25
Less than 1999	1,25,758	19.70
Less than 4999	69,135	10.80
Less than 9999	11,618	1.80
10,000 and above	3,064	0.50

*Based on the Source: [www.ficci.com/media-rooms/speeches-presentation/2007/may/rural/chandramouli.pdf](http://www.ficci.com/media-rooms/speeches-presentation/2007/may/rural/chandramouli.pdf)*



Table 3: Rural vs. Urban Penetration 2005

Criteria	Rural HH'000	% PEN	Urban HH'000	% PEN	Total HH'000	% PEN
Car/Jeep/Van	1,603	1	7,241	12	8,844	4
Two-wheelers	16,195	11	25,813	42	42,008	20
Color television sets	18,152	12	38,572	63	56,724	27
Refrigerators	11,014	8	29,515	48	40,529	20
Washing machines	1,870	1	14,447	24	16,317	8
Room air-conditioners	76	0	2,936	5	3,012	1
Fans	63,025	43	47,302	77	1,10,327	53
Bicycles	80,533	55	36,835	60	1,17,368	57
TV (B/W or color)	48,573	33	46,400	76	94,973	46
Gas stoves	27,390	19	40,964	67	68,354	33
Pressure cookers	37,883	26	45,192	74	83,075	40
Has electricity connection	59,928	41	46,981	77	1,06,909	52
Drinking water in the household	39,549	27	35,073	57	74,622	36
Fuel used is LPG/electricity/ biogas	8,544	6	26,090	43	34,634	17
<b>Total Households '000</b>	<b>1,46,192</b>	<b>100%</b>	<b>61,196</b>	<b>100%</b>	<b>2,07,388</b>	<b>100%</b>
<b>Total Population base</b>	<b>8,77,152</b>		<b>1,83,588</b>		<b>10,60,740</b>	

1. Lifestyle  
Definers1. Very poor  
Rural  
Penetration

2. Necessity

2. Higher  
Rural  
Penetration  
When  
Compared  
to Lifestyle4. Basic  
Infra4. Basic  
Infra Fast  
Improving in  
Rural HHSources: FK Urban Rural Index 2005 and [www.ficci.com/media-room/speeches-presentations/2007/may/rural/chandramouli.pdf](http://www.ficci.com/media-room/speeches-presentations/2007/may/rural/chandramouli.pdf)

The introduction of sachets by Hindustan Unilever Limited in the early 1990s is often quoted as a revolutionary step in penetrating into the rural market. But the entry of Tatas into iodized salt production had not yet impacted on the rural front as much as one wanted it to be. Hundreds of villages in the North India in the states of Haryana, Rajasthan and UP still use the old type of common salt, i.e., they do not use finely powdered iodized salt. (See Table 1).

Table 3 deals with electronic goods' penetration in rural India while the detailed examination of the same in the power point presentation of Chandramouli admits both poor rural penetration and poor electrification of rural

India. Secondly, the penetration of the electronic goods is not well-correlated with the specific income groups. In fact, around 65% of unreached 87.50% of rural India comprises small farmers and farm labor. About 35-40 of landholding in the rural sector is still under dry land farming. Therefore, the data showing the selling of fans, TVs, electricity connections, drinking water connections in the urban centers defy any logical understanding of market behavior. (See Table 3)

Against this backdrop, two presumptions can be made: (i) The figures are based on assumptions, (ii) The products quoted as having been sold must have been from semi-urban areas like Noida (UP),

Aligarh (UP), Meerut (UP), Gurgaon (Haryana), etc., which share both village and urban settings. For instance, between Lucknow and Kanpur, there are a couple of villages which share semi-urban settings.

### Alternative Goods to Branded Products (Local Makes) Due to Investment Constraints

In most of the villages where population was less than 2,000, small shop owners were unable to take the branded goods due to deposit/dealership constraints such as initial investments required to market the branded goods. Several local cool drinks as alternatives to branded Coke or Pepsi Cola are still in use. In the north, soap making is a cottage industry and many self-help

groups produce low-cost detergent soaps. Here, one can easily find a number of local soaps as an alternative to branded soaps such as Rin, Surf, Ariel, Henko, etc. There is a huge price difference between the branded detergent soaps and the local soaps. The situation is similar in the case of shampoos, though in some kiosks or small outlets shampoo sachets are available. It is very important to note that very few women in rural India use branded hair oil. Among the hair oils available, the local people prefer Parachute low-cost sachets or bottles. Among eatables, one will hardly come across chips of well-established companies like Lays, Bingo, Kurkure packets. These are still confined to urban and semi-urban centers. However, the rural folk have alternative brands for these items which are commercially made in local shops at a lesser price. Kurkure packets that cost Rs. 5 have not yet penetrated in some of the places in rural India.

### Newer Strategies

Though marketing primarily deals with the basic premise that “it evaluates the local needs, needs of the customer and tries to meet the customer expectations through its products and services”, the primary strategy required now is to study in detail whether all the existing FMCG products are really required in rural India? Whether rural women use products like Fair & Lovely, Pond’s, Lux is a billion dollar question if we look at their living conditions. Apart from the strategies suggested for penetration, it is suggested to have quick and better access to the hinterland villages either by road or by train or by private transport. But, no author has clearly mentioned about a

strategy for the FMCG companies like LG, HUL, Colgate Palmolive, Reliance, Airtel and Idea—despite their market projections running into crores—for investing and bringing about a change in the rural India in the next few years by laying down the infrastructure required to meet such big targets. Even the advertising of these companies is not rural-friendly. In fact, advertising in India has not yet developed a rural-based advertising strategy. This is a sort of business where the FMCG companies wish to encash on the hard earnings of the rural India without giving them anything in return except selling their cosmetics, shampoos, soaps, detergents, TVs, Gas Stoves, etc.

There is the minimum social responsibility cast on these institutions whose eyes are always focused on amassing huge profits by expanding into rural markets. The FMCG companies willing to expand into rural markets must themselves develop infrastructure that will suit different topographical settings of India. (Murthy 2008a, b and c)


Unless such an infrastructural development takes place, the studies cited in the analysis do not reflect the actual expanding rural market and penetration of the FMCG products. The present study, thus, calls for a more realistic analysis of expanding rural markets and penetration of FMCG products with a more comprehensive indices and

parameters associated with the rural India before one calls it a phenomenon.

### Conclusion

The article attempts to correct the previous studies and reports, which state that the rural market is expanding and that the penetration of the FMCG products is quite high. According to the article, most of the FMCG products which have registered high penetration are mostly phenomena arising out of semi-urban settings where urban marketing strategies act as an

extension of urban life applied to the rural settings. Several branded products could not penetrate into the hinterland of rural India obviously due to investment constraints involved with FMCGs and MNCs. Further, for the last one decade, the rural farming has been dwindling

and decaying with hundreds of thousands of farmers committing suicide and most of them migrating to urban areas as daily wage labors. It is felt that studies in the past have failed to take note of vast diversity in the topographical conditions of rural India where single monsoon, single irrigation, dry land farming keep the rural populace under perennial poverty. As such, this article calls for a realistic assessment of the actual rural expanding market and penetration of FMCG products, besides pointing out the newer strategies that have to be worked out. 

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